Imperial Oil Limited Annual Report 1966

canada
1867·1967

Results in brief

Financial		1966	1965
	dollars in thousands except per share amounts		
Earnings	$	92,408	86,178
per share	$	*2.90*	*2.71*
as a percentage of revenues	%	*7.7*	*7.4*
as a percentage of capital employed at January 1	%	*9.8*	*9.5*
as a percentage of shareholders' investment at January 1	%	*11.5*	*11.2*
Dividends paid to shareholders	$	63,500	58,667
per share	$	*2.00*	*1.85*
as a percentage of earnings	%	*69*	*68*
Shareholders' investment at year end	$	830,147	798,285
per share	$	*26.11*	*25.16*
Capital and exploration expenditures	$	139,801	115,591

Operating	1966	1965
	thousands of barrels per day	
Petroleum products sales	356	348
Crude oil processed at refineries	346	332
Crude oil production		
gross	*146*	*133*
net	*127*	*115*
Natural gas production	millions of cubic feet per day	
gross	*258*	*215*
net	*218*	*181*
Gross recoverable reserves*		
crude oil (millions of barrels)	*1,534*	*1,522*
natural gas (billions of cubic feet)	*2,964*	*2,706*

*After allowing for production to date, these are estimated reserves which the company feels can reasonably be considered as proved. The estimate is based on present knowledge of the size and nature of the producing reservoirs

Annual Report 1966

Imperial Oil Limited
Incorporated under
The Canada Joint Stock Companies Act 1877
on September 8, 1880
Head Office
111 St. Clair Avenue West
Toronto 7, Ontario

Transfer Offices
Imperial Oil Limited: Toronto Ontario
Montreal Trust Company:
Halifax Nova Scotia/Montreal Quebec
Toronto Ontario/Winnipeg Manitoba
Regina Saskatchewan/Calgary Alberta
Vancouver British Columbia
Bankers Trust Company: New York, New York

Annual General Meeting and
Special General Meeting of Shareholders
11:00 a.m., Tuesday, April 18, 1967
Canadian Room, Royal York Hotel
Toronto, Ontario

Directors
J. A. Armstrong
J. A. Cogan
J. W. Flanagan
L. D. Fraser
J. W. Hamilton
A. C. Harrop
T. F. Moore
R. S. Ritchie
D. S. Simmons
V. Taylor
W. O. Twaits

Officers
W. O. Twaits President
J. A. Armstrong Executive Vice-President
J. A. Cogan Vice-President
L. D. Fraser Vice-President
T. F. Moore Vice-President
V. Taylor Vice-President
G. M. Henderson General Secretary
G. R. McLellan Comptroller
D. W. McGibbon Treasurer

J. F. Barrett Q.C. General Counsel

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Esso

Report to the Shareholders For the fiscal year ended December 31, 1966

Imperial set new records again in 1966. Production of crude oil and natural gas, and volumes of products manufactured and sold, reached new highs. Earnings and dividends increased again.

These and other aspects of the company's performance during 1966 are detailed in other sections of this report. Financial and operating highlights are set out on page four.

The year 1966 was a good one generally for the oil industry. The continued increase in product demand further reduced excess refinery capacity to the point where supply was largely in balance with demand.

With demand expected to increase some four per cent per year, Imperial has started a major refinery investment program. Work is progressing on large new units at Sarnia and major studies of refining needs in other areas have been undertaken.

With spare refinery capacity at its lowest point since 1956, product prices recovered somewhat in most major markets. Present wholesale price levels however are still such that return on manufacturing/marketing investment is low. In this regard, it should be noted that the oil industry is one of the very few which is receiving less for its products than 10 years ago, although quality of those products has improved appreciably in that period. Prices must improve if, over the long term, the industry is to continue to provide the increasingly expensive facilities needed to meet rising demand.

During 1966 the Royal Commission which was appointed to study the gasoline price structure in British Columbia handed down its report. While the commissioner came to some conclusions with which Imperial disagrees, in essence the report recognized that free competition in the market place is the best protection gasoline buyers have against unfair prices, and that this competition does indeed exist.

At year end, the province of Nova Scotia announced the appointment of a Royal Commission to investigate the factors that make up the price of gasoline and diesel fuels. This was the fifth such study of oil industry marketing practices instituted by Canadian provinces since 1960. These investigations are costly, not only to the oil companies involved but to the public as well. The best protection the gasoline customer has is competition in the market place. That this competition works is evident not only in the findings of the B.C. Commission but in the fact that today the wholesale price of gasoline is lower than it was 10 years ago—a fact that has been obscured by sharp increases in recent years in provincial road taxes and the federal sales tax. The trend in taxes on gasoline, compared with Imperial's posted prices for gasoline sold to its dealers at principal cities across Canada, is shown in chart form on page five.

In the producing phase, the revised well spacing regulations introduced by the Alberta government continued to have a significant effect on the industry's development and production operations. While Canada's production of crude oil and natural gas liquids increased 10 per cent in 1966, and for the first time averaged more than one million barrels per day, the number of development wells drilled decreased 25 per cent. The number of wells operated in existing fields was also reduced. The resulting savings helped offset the increased costs of drilling and of field production equipment.

Continued successful exploration in the Rainbow and other areas of western Canada has again focussed attention on the matter of markets for Canadian oil. Imperial, which has been a leader in developing domestic as well as export markets for Canadian crude, has intensified its continuing market studies. Rising Canadian demand will, of course, provide additional outlet. Beyond this, the most logical area for market growth is the Great Lakes region of the United States.

Development and timing of expanded markets in the U.S. will depend primarily on U.S. government policies. Several factors should prove favourable to increased use of Canadian oil. First, the concept of security of supply, which was a key factor in the decision to grant Canadian crude a preferred place in the U.S. import picture, is as valid today as ever. Second, demand for crude in the U.S. is expected to increase steadily over the coming years while, it is predicted, U.S. reserves of conventional crude oil will not increase proportionately. Third, the past year has revealed that fields in the mid-continent area of the U.S. are already producing at essentially full capacity.

Company expenditures for refining and chemical facilities were $45 million in 1966, an increase of $28 million over 1965. In total, the company's capital spending increased from $86 million in 1965 to $103 million in 1966.

It is expected that during 1967 expenditures for capital projects will rise again, to an estimated $120 million. To obtain the money it presently needs for expansion, the company offered a $50 million debenture issue in December of 1966. This was the first such issue since 1955, when the company raised $50 million through the sale of debentures at an interest rate of 3⅝ per cent. The interest rate of the new issue—6¾ per cent—reflected the high demand for capital.

In its annual reports to shareholders, your company constantly endeavours to present as concise and clear a picture as possible of its financial position. In this regard, changes have been made this year in the method of presenting the balance sheet. Financial data normally presented in balance sheet form have been put in a columnar format which more clearly shows the relationship between current assets and liabilities and, in turn, the relationship of all assets and liabilities to shareholders' investment.

The year 1967 follows five years of Canadian economic growth. In that period, our G.N.P. increased by more than half and non-agricultural employment by nearly a quarter. For the past year output grew by more than 10 per cent. This is a very high rate of economic expansion, and it is forecast that the current year should see a more moderate growth.

Industry sales of petroleum products during 1967 are expected to increase five per cent, and average 1.2 million barrels daily. Production of crude oil and natural gas liquids is expected to grow by about seven per cent, while natural gas sales, reflecting increased exports, are expected to rise about 12 per cent.

This is Canada's Centennial year, and your company is strongly identified with the country's celebration of its 100th birthday. Contributions have been made to numerous Centennial projects being carried out in communities from coast to coast. A series of Centennial films showing each of the provinces and their chief Centennial projects, and featuring the provincial premiers, was produced by the company and shown on the hockey telecast. At Expo 67, the company has made a substantial contribution to one of the main theme buildings, "Man In The Community," and Esso kiosks will be the official information centres.

Imperial is proud that, for 86 of the past 100 years, it has played a part in our country's development as a great nation. From the beginning Imperial has led in supplying energy for Canada's growth, and today it is also providing a wide range of chemicals that contribute to a better life for all Canadians.

At this time it is particularly appropriate to pay tribute to the employees, dealers and agents whose efforts have contributed so much to the company's success. Imperial's operations extend into every community in the land, and in all these communities the company is represented not only by good businessmen but by good citizens.

To the company's employees, to its dealers and agents, and to its shareholders for their continued support, the directors extend their appreciation.

W.O. Twaits, president

Financial and Operating Highlights 1966

Financial
Earnings of $92 million, up seven per cent over 1965.

Dividends totalling $2 per share, an increase of 15 cents per share over the previous year.

A record level of wages and salaries paid.

A record level of taxes paid to and collected for all levels of government.

Capital and exploration expenditures of $140 million, up 21 per cent over the previous year.

The successful offering of a $50 million debenture issue designed to provide capital for expansion of the company's refining and chemical operations.

Producing
A high level of exploration activity in northwest Alberta, including continued successful drilling in the important Rainbow area.

The continued offshore exploration program in the Grand Banks region of the Atlantic. While no discoveries were made results were encouraging, and the program will be continued.

The discovery, by Imperial and partners, of large reserves of columbium, a metal used as an alloying agent in steel.

Transportation
Arrangements to charter a "super tanker" of 112,000 deadweight tons which will enter service for Imperial in 1967.

Petroleum Products
Construction of a fluid coking complex at Sarnia. Scheduled to go on stream in 1967, the new units will increase refinery efficiency and add to potential distillation capacity.

Further development of profitable new trends in retail merchandising, including the opening of 13 new Esso service centres in eight cities. All include automotive diagnostic clinics.

Modernization of existing outlets, and the continued implementation of studies designed to improve the quality of market representation and obtain the most productive use of marketing capital.

A program of construction of Engro fertilizer warehouses across the prairie provinces.

Chemical Products
A large increase in sales, 20 per cent above the value of sales in 1965.

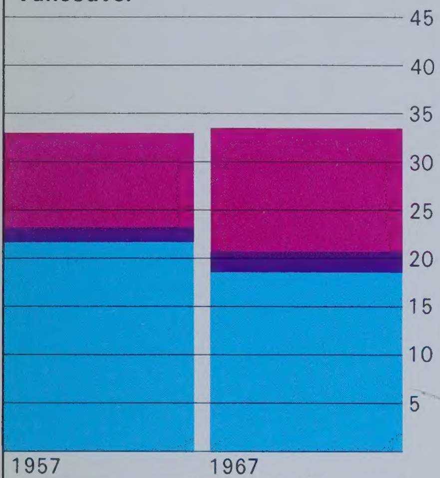
The completion of new plants at Sarnia and Ioco, and the construction of other new facilities (scheduled for completion in 1967) at Dartmouth, Montreal East and Sarnia, which expand both the range and the capacity of the company's chemical product operations.

Research
The opening of a new laboratory at Sarnia which will do applications research in the polyvinyl chloride plastics field.

Employee Relations
The introduction, at the first of 1966, of a revised benefits program. The new program, which is effectively coordinated with recent government pension plans, increases employee security and protection.

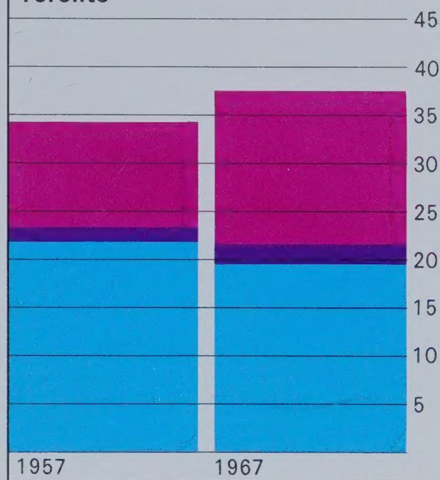
Gasoline Taxes, and Esso Tank Truck Prices ex tax, 1957 and 1967

Vancouver



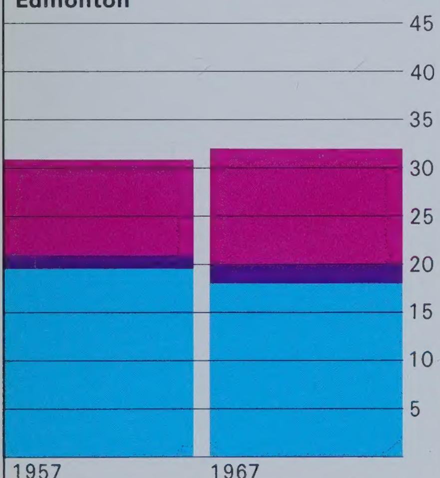
Taxes up 3.6¢
Tank truck price ex tax down 3.1¢

Toronto



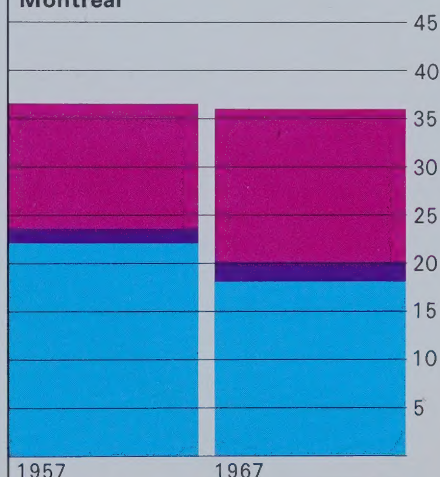
Taxes up 5.6¢
Tank truck price ex tax down 2.3¢

Edmonton



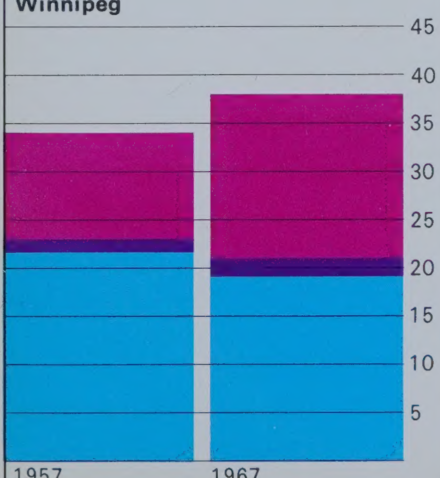
Taxes up 2.6¢
Tank truck price ex tax down 1.7¢

Montreal



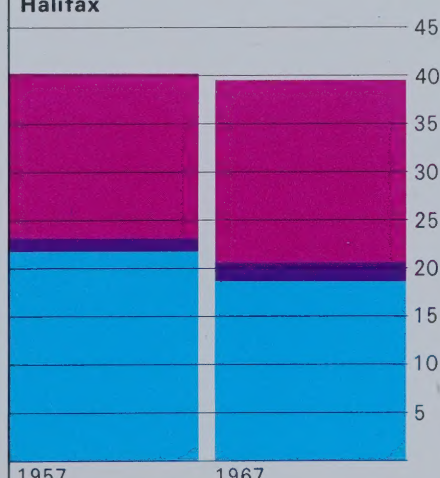
Taxes up 3.6¢
Tank truck price ex tax down 4.1¢

Winnipeg



Taxes up 6.6¢
Tank truck price ex tax down 2.6¢

Halifax



Taxes up 2.6¢
Tank truck price ex tax down 3.2¢

Over the past 10 years the amount Imperial receives for Esso gasoline has gone down, while provincial road taxes and the federal sales tax on gasoline have increased. The charts on this page show the relationship between these taxes and the tank truck price of Esso, ex tax, at six principal cities across Canada in January 1957 and January 1967. The tank truck price is the posted price per gallon at which Imperial delivers Esso into dealers' tanks.

In the same period the quality of Esso gasoline improved appreciably.

Provincial tax
Federal tax
Tank truck price ex tax

Exploration and Production 1966 pictorial review

Imperial continued its search for oil and gas in many parts of Canada during the year—from British Columbia to the Grand Banks off Newfoundland, and from the border to north of the Arctic Circle.

The year 1966 saw a marked increase in the company's geophysical surveys, exploratory drilling and land acquisition in northern Alberta and the Northwest Territories, including the important Rainbow area. Out of 25 wells drilled to date at Rainbow by the company, 18 have been successful.

In association with Pan American Petroleum Corporation, two exploratory wells were drilled on the Grand Banks—some 200 miles southeast of Newfoundland. One hole was dry and abandoned, the other was suspended due to weather conditions. Geophysical exploration will be continued during 1967.

Large reserves of columbium were discovered in the James Bay area of northern Ontario by Imperial and three mining companies with which Imperial has an exploration agreement. Under this agreement the company can earn a 60 per cent interest in discoveries made. Studies are now underway to assess markets for this metal which is used as an alloying agent in steel.

A pilot project involving injection of steam into viscous oil reservoirs was continued in the Cold Lake area of Alberta, some 180 miles northeast of Edmonton. Results of the tests, which were begun two and a half years ago, have been encouraging.

Continued research by Syncrude Canada Limited, in which Imperial has a 30 per cent interest, has further improved methods of recovering oil from the Athabasca tar sands. Commercial development is dependent on the approval of the Alberta government.

Exploration expenditures totalled $37 million during 1966. In addition, capital expenditures of $25 million were made for the acquisition of proven acreage, for oil and gas field development, and for secondary recovery projects.

	1966	1965
Gross land holdings (reservations, permits, options, leases), millions of acres	50	50.6
Exploratory wells drilled, including partnership ventures	108	91
Net development wells drilled	87	135
Net wells capable of production		
crude oil	*2,987*	*2,908*
natural gas	*219*	*208*

1

2

1 Around the clock and in all seasons, drilling crews continued their search for oil and gas. This Imperial rig is operating in the Rainbow area of northwest Alberta where Imperial made a number of significant discoveries during 1966.
2 An exploration partnership between Imperial and three mining companies resulted in the discovery of large deposits of columbium in the James Bay area of northern Ontario. Techniques used in the exploration program included an electromagnetic survey, shown here.
3 Drilling in the unpredictable North Atlantic throughout the summer, the 9,550-ton Glomar Sirte put down two wildcat wells on the Grand Banks of Newfoundland as part of a joint exploration effort by Imperial and Pan American Petroleum Corporation.

3

1 The company's geophysical activities were at a high level during the year. This seismic unit is one of those working in the Northwest Territories.

2 A new type of mobile seismic unit receives final inspection at Imperial's production and technical research laboratory in Calgary, before being sent to northwest Alberta. It permits seismic readings to be recorded directly on computer tape.

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Arrangements were made to charter a 112,000 deadweight ton tanker to deliver crude oil to eastern Canadian refineries. Named the Imperial Ottawa, and scheduled to go into service in May 1967, this 907-foot-long vessel will have a capacity of 850,000 barrels.

The Imperial Acadia, a new 10,000 deadweight ton products tanker, largest of its class in Canada, went into service during the year on the east coast.

As part of continuous efforts to improve the efficiency of product distribution, 300 jumbo-sized tank cars were added to the company's leased rail fleet. Jumbo cars, each with a capacity of 17,000 Imperial gallons, are twice the size of regular tank cars.

Pipelines which Imperial owns, or in which it has an interest, expanded their facilities and introduced new methods of operation to improve efficiency. During 1966 a 240-mile, 20-inch pipeline in which the company has a one-third interest was completed from the Rainbow area of northwest Alberta to the system that connects the Mitsue-Nipisi region to Edmonton.

1

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1 *The 10,000 deadweight ton Imperial Acadia underwent trials in Lake Ontario before entering service on Canada's east coast. Specially reinforced to withstand ice, the Acadia serves many ports otherwise inaccessible during winter. It has a capacity of 81,500 barrels of product.*

2 *During the year the company put into service 300 jumbo-sized railway tank cars, which are twice the size of conventional tank cars. Here new cars are shown under construction at Oakville, Ontario.*

1

2

1 *The Imperial Ottawa, which will be under charter to the company, is seen here during its launching in Kobe, Japan. Scheduled to go into service in May 1967, the 112,000 dead-weight ton ship will have a capacity of 850,000 barrels.*

2 *Capacity of company-owned pipe lines, and of lines in which the company has an interest, was expanded. Here a parallel line is added to the Interprovincial Pipe Line in which Imperial has a one-third interest.*

Imperial's refinery runs averaged a record 346,000 barrels per day during 1966, an increase of more than four per cent over 1965. Continued increase in product demand further reduced excess refinery capacity to the point where supply was largely in balance with demand, and the company has started a major refinery investment program.

Capital expenditures for manufacture of petroleum products were $25 million, up $16 million from 1965. This increase is primarily represented by construction work on the fluid coking complex at Sarnia refinery, which was announced last year and which is scheduled to go into operation about mid-1967. The new facilities will add to potential distillation capacity and permit more efficient use of crude oil. They will also increase production of streams for chemical product requirements.

1

2

3

1 Fifty years of operations were celebrated at Imperial's refinery in Montreal East (shown here) and at the Regina refinery during 1966.
2 As part of its recruiting program, the company invites students to visit its facilities. Here a group of engineering students tours Sarnia refinery.
3 An operator examines a sample of sulphur at Winnipeg refinery. Sulphur recovery plants, which convert hydrogen sulphide extracted from refinery gas streams into sulphur, began operations at Winnipeg and Dartmouth refineries during the year.

1

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1 Efficiency improvements achieved at modest cost increased the annual capacity of the lubricating oil plant at Edmonton by nearly 100,000 barrels. Here a workman inspects the spiral line which feeds empty cans to the filling machines.

2 An electron microscope capable of magnifying 200,000 times was added to facilities at the company's research laboratories in Sarnia. Here a scientist studies a sample of silica alumina, a catalyst used in refining gasoline.

3 A 350-foot stack towers above the fluid coking complex under construction at Sarnia refinery. Begun in 1965, the new facilities are expected to be completed by mid-1967.

Marketing 1966 pictorial review

Sales of petroleum products increased for the fifth consecutive year, reflecting the success of new marketing strategies instituted in recent years.

One such program has been the visual and functional upgrading of service stations, begun in 1964. To date almost 600 units across the country have been modernized. Remodelling has included changes in architectural styling and color scheme, and integrated designs for pumps, canopies and signs. Almost 300 stations were remodelled during 1966.

At the same time major steps have been taken to develop marketing facilities closely oriented to customer needs. Imperial's new automotive service centres feature car diagnostic clinics, mechanical repair services and a variety of home and leisure products and automotive accessories, as well as improved pump island services. Fifteen of these new units have been opened across Canada, 13 of which were completed in 1966. The clinics have proved particularly popular.

Sales were also increased in the farm market. Engro fertilizer sales again showed a considerable increase. The Engro program also saw the erection of more than 100 fertilizer warehouses across the prairie provinces during the year.

In both the home heat and industrial/commercial markets sales increased while a number of new product lines and services were successfully introduced.

Expenditures during the year for new sales and distribution facilities totalled $23 million.

1

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2

1 *Thousands of Imperial dealers from across Canada attended regional conferences during 1966. The meetings were held to discuss new company products and promotions.*

2 *Among the new products introduced during 1966 was Arcan Grease in an aerosol can. Besides performing normal household greasing jobs, the new container has a special high-pressure nozzle which permits it to operate as an efficient grease gun.*

3 *As part of its service station modernization program the company built 13 automotive service centres in 1966. Below is a new centre in Toronto, and to the left is a new unit in Calgary.*

3

1 *Esso kiosks will be the official information centres at Expo 67. In addition, the company is building in the Montreal area 20 off-site information kiosks for travellers. Here members of the marketing department examine a model of an off-site kiosk; in background is a picture of the on-site model.*

2 *Company distribution facilities were modernized and expanded. Here workmen are building a 420,000-gallon gasoline storage tank at the Victoria marketing terminal, main distribution point serving southern Vancouver Island.*

1

2

Sales of chemical products during 1966 were up by 20 per cent in value over 1965. Capital expenditures increased again as the company continued to expand its chemical manufacturing facilities.

A plant for the production of polyvinyl chloride (PVC) plastic resins went on stream at Sarnia. In addition to the new plant, which has an annual capacity of 45 million pounds, a PVC applications laboratory was also opened.

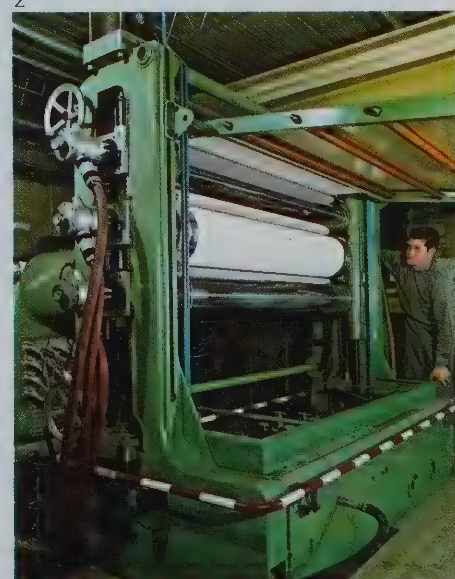
A toluene plant was completed at Ioco, and construction began on a methanol plant at Montreal East refinery and on a heptene plant at Dartmouth refinery. The methanol and heptene units are scheduled to be in production early in 1967. Toluene is used in the making of adhesives for the plywood industry, and as a solvent, primarily in the manufacture of paint. Methanol is used as a general purpose solvent and as a raw material for the manufacture of a number of chemicals. Heptene is used in the manufacture of materials used to improve the processing characteristics and physical properties of plastics.

Construction also began during 1966 on expanded ethylene facilities, as part of the fluid coking project now underway at Sarnia. The new facilities will double present capacity and will maintain Imperial's position as Canada's leading supplier of this basic chemical.

During 1966 the sales of Building Products of Canada Limited attained record levels and its share of several important markets continued to improve. Sales volume was less than anticipated, however, because of the depressed housing market. Competition within

1

2



1 *A new polyvinyl chloride plastics plant, with an annual capacity of 45 million pounds, began operating at Sarnia during 1966.*

2 *This plastic sheet extruder, largest in Canada, was added to the facilities of Building Products' Micro Plastics division at Acton. Building Products achieved record sales during the year.*

this environment was intense. In spite of improved manufacturing efficiencies in most plants, profit margins were adversely affected by increased raw material and freight costs.

Construction was started on an addition to the Pont Rouge mill, near Quebec City, to permit the manufacture of a broad range of mineral wool ceiling tiles for both decorative and acoustical applications. New plastic pipes and fittings, and new vinyl-asbestos floor tile patterns, were developed during the year and successfully introduced to the market.

1

2

1 One of the first export shipments of acrylonitrile from the company's new $5 million plant at Sarnia arrived at Rotterdam in November. Acrylonitrile is a colorless liquid used in the production of synthetic rubber, fibres and plastics.

2 Technicians experiment with coloring of plastic sheet in the mill room at the company's extensive new PVC plastics applications laboratory, opened during the year in Sarnia.

3 A $2 million toluene plant, shown here under construction, went on stream at Imperial's Ioco refinery in British Columbia. Toluene is used in the making of adhesives for the plywood industry and also as a solvent, primarily in the manufacture of paint.

4 A 100-foot tower—part of a new methanol plant under construction at Imperial's Montreal East refinery—is hauled to its erection site. Methanol is used as a general purpose solvent and as a raw material in the making of a number of chemicals.

3

4

Financial Review

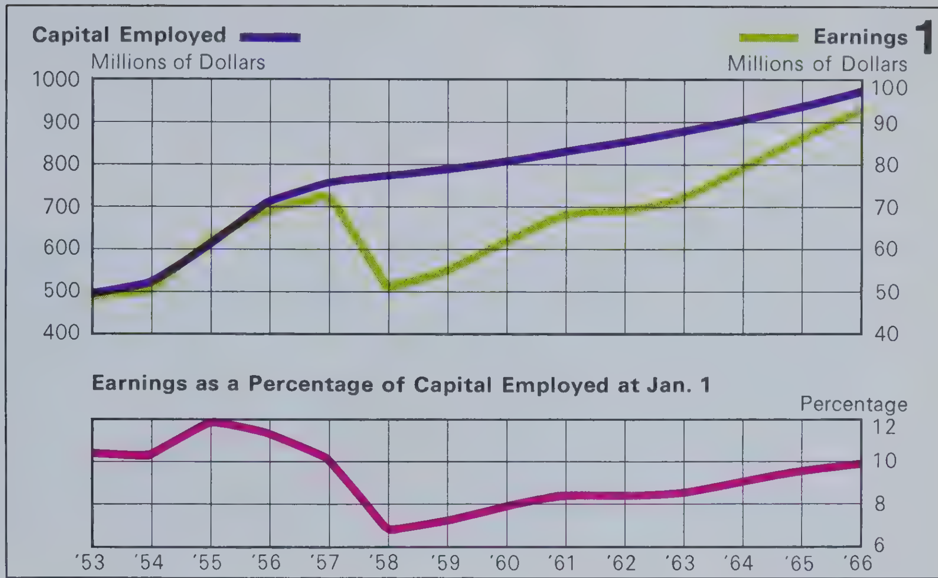
Earnings
The company's earnings for 1966 were $92,408,000, an increase of $6,230,000 or 7.2 per cent over 1965. Earnings per share were $2.90 compared with $2.71 for the previous year.

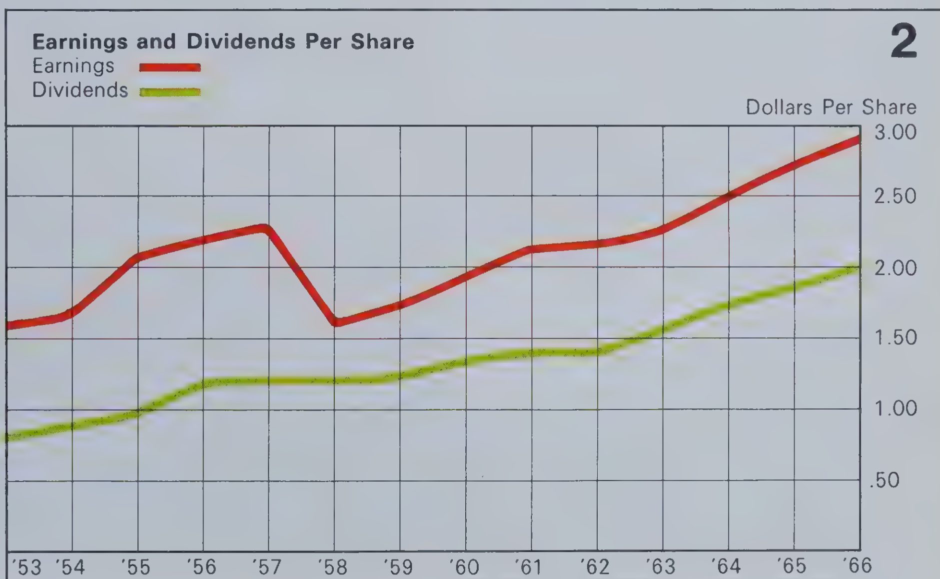
Capital employed
At the end of 1966 capital employed by the company was $974,070,000. The relationship between the company's earnings and capital employed is illustrated in Chart 1. Expressed as a percentage of capital employed, earnings reached 11.9 per cent in 1955 and dropped to 6.7 per cent in 1958. Since then the rate of return has increased and in 1966 was 9.8 per cent.

Dividends paid to shareholders
Dividends of $2.00 per share were paid by the company in 1966 compared with $1.85 in 1965. Quarterly payments per share are shown in Table A below.

The company has paid dividends each year for the past 76 years. The total paid out in dividends in 1966 was $63,500,000 and represents 69 per cent of earnings, compared with $58,667,000 and 68 per cent in 1965.

The trend of earnings and dividends per share in recent years is shown in Chart 2.





A Dividends per share		1966	1965
First three quarters at 45¢ (40¢ in 1965)	$	1.35	1.20
Fourth quarter	$	.50	.45
Extra	$	.15	.20
	$	2.00	1.85

Revenues and expenses

Sales and other operating revenues increased $38,512,000 or 3.3 per cent to a record $1,183,595,000. Revenue from petroleum products sales was higher than in 1965 as a result of increased volumes and some recovery in prices in major markets. A 10-year history of petroleum products sales volumes is provided in Chart 3. Chemical products revenue increased 20 per cent, reflecting the company's rising investment in chemical facilities.

Investment and other income was $17,702,000 compared with $16,784,000 in 1965. This represents mainly dividends on shares held in pipe line companies and interest from other investments.

Expenses increased with the higher level of operations, an expanded exploration program, and with the rising cost of materials and wages.

The volume of crude oil processed at refineries continued its upward trend and reached 346,000 barrels per day in 1966 as illustrated in Chart 4. The same chart shows the improvement in the relationship between foreign crude imports and crude export sales.

The company's net production of crude oil reached 127,000 barrels per day in 1966, a 10.3 per cent increase over 1965. In addition the company purchased 186,000 barrels per day from other Canadian producers in order to meet its domestic and export requirements (see Chart 5).

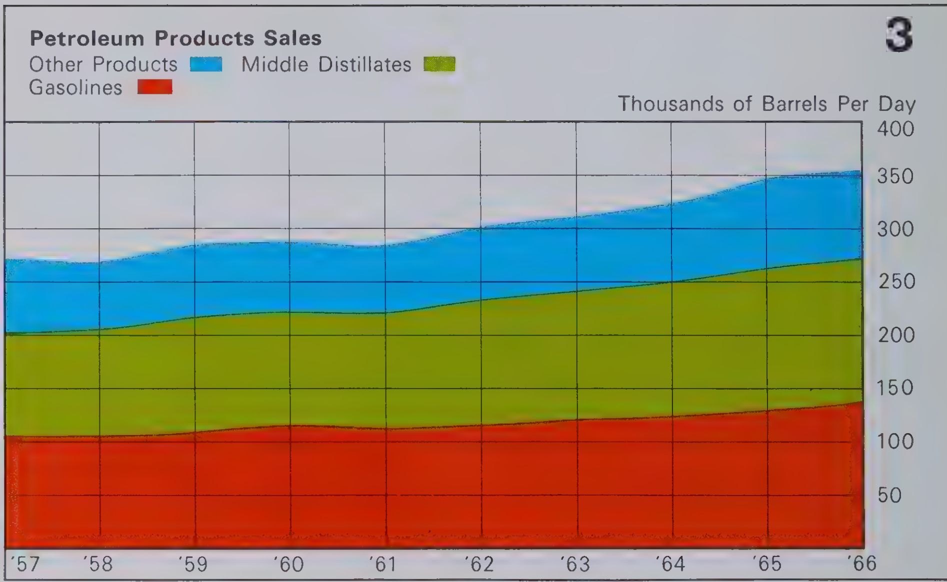
Exploration expenses at $37,040,000 were 23 per cent greater than in 1965 (see Chart 9). The increase came largely from an expanded program of exploratory drilling. It is the company's policy to treat the costs of acquisition and retention of exploratory acreage, geological and geophysical surveys, unsuccessful drilling, and other exploration expenses, as charges against current earnings.

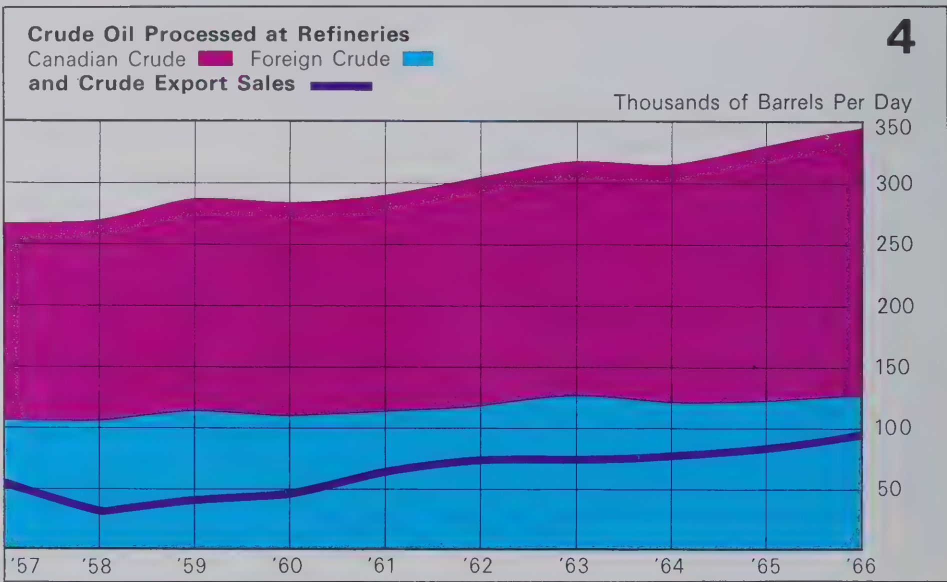
Salaries, wages and benefits totalled $124,781,000 in 1966, an increase of 12.6 per cent over the previous year; Chart 6 shows the average per employee for the past 10 years.

Taxes charged against earnings, and road and other taxes collected on behalf of governments, are shown in Table B.

A 10-year history of taxes and their relationship to earnings is provided in Chart 7.

Road taxes now range from 12 to 19 cents per gallon for gasoline and from 14 to 27 cents per gallon for diesel fuel. The most recent increases occurred in Quebec in 1965, and in Ontario and Saskatchewan in 1966.





B Taxes (thousands of dollars)		1966	1965
Income taxes	$	44,414	40,861
Federal sales taxes	$	42,933	40,098
Property and other taxes	$	15,488	14,109
Total charged against earnings	$	102,835	95,068
Road and other taxes	$	196,705	183,751
	$	299,540	278,819

Working capital

The company's Consolidated Statement of Financial Position on page 25 provides the details of working capital at the end of 1966 and 1965.

The relationship of the company's current assets to its current liabilities for the past two years is shown in Table C below.

The decrease in working capital is a result of the company's expanded capital expenditure program. In January 1967, the company received the proceeds from the sale of $50,000,000 6¾ per cent debentures (see note 9 on page 27).

Accounts receivable at the end of 1966 totalled $202,863,000, an increase of $13,514,000 or 7.1 per cent over 1965, reflecting expanded use of the company's credit cards and other credit facilities. Collection results have been satisfactory.

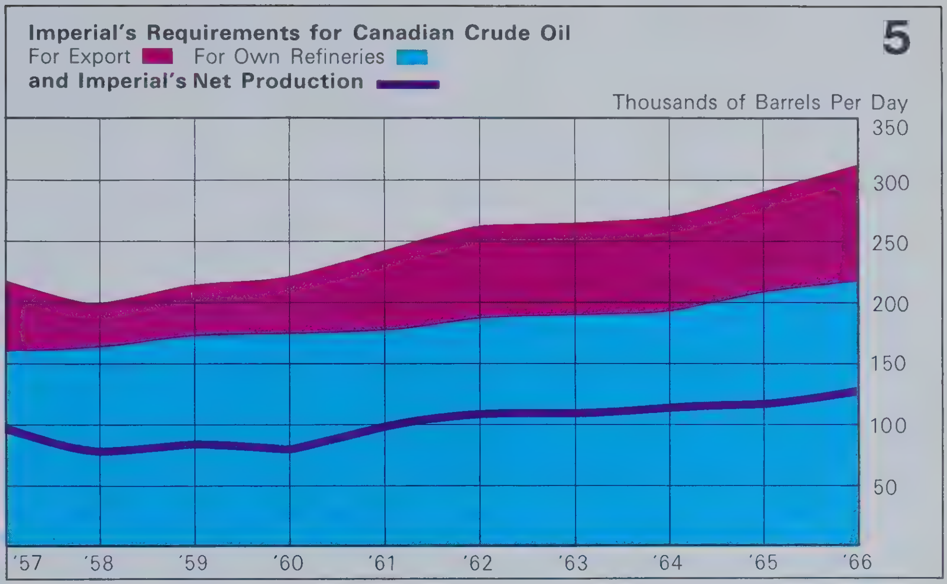
Inventories are a major investment of the company. Changes in crude oil, products and merchandise inventories in the past two years are shown in Table D below.

Long-term accounts receivable, investments and other assets

A summary of these assets appears in note 5 on page 26.

Long-term accounts receivable, which consist of loans to dealers and the financing of furnace and burner sales undertaken in the normal course of marketing operations, increased 10.4 per cent to $46,998,000.

The major investment interests in other companies not consolidated in this report are listed in Table E below. The principal activity of these companies is the operation of crude oil trunk lines, with the exception of Tecumseh which is a natural gas storage company.



C **Current assets/Current liabilities** (thousands of dollars)		1966	1965
Current assets	$	393,410	401,582
Less: Current liabilities	$	143,346	130,337
Working capital	$	250,064	271,245
ratio, current assets to current liabilities		*2.7 to 1*	*3.1 to 1*

D **Inventory changes** (thousands of dollars)		1966	1965
Investment in inventories at year end	$	145,835	142,509
Change from previous year	$	3,326	5,874
Percentage change	%	2.3	4.3

E **Major investment interests**	per cent interest
Interprovincial Pipe Line Company	33.0
Trans Mountain Oil Pipe Line Company	8.6
Montreal Pipe Line Company Limited	32.0
Rainbow Pipe Line Company, Ltd.	33.3
Tecumseh Gas Storage Limited	50.0

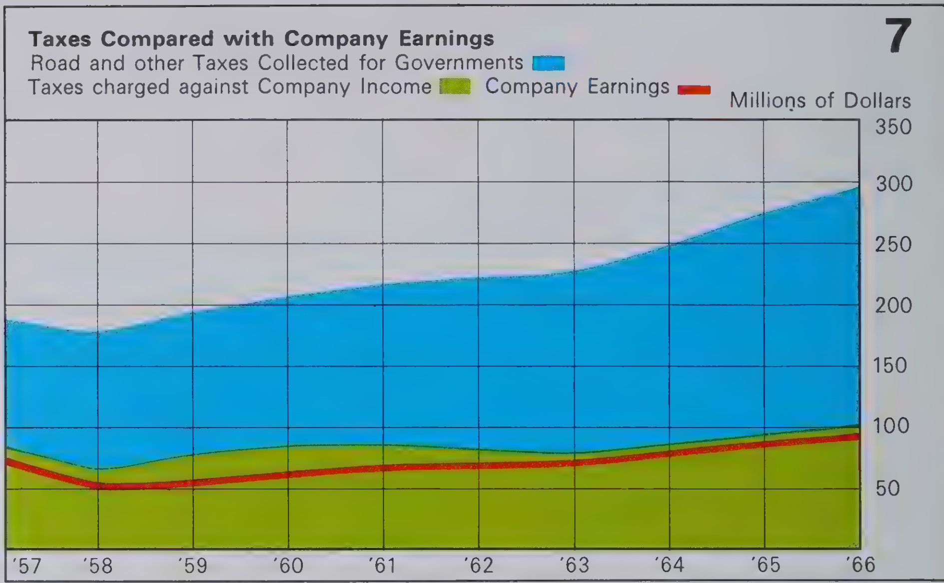
Property, plant and equipment

The company's gross investment in property, plant and equipment continued its upward trend and reached $1.2 billion in 1966. Note 8 on page 27 provides a breakdown of these assets by major activity.

Total capital expenditures for the past two years are shown in Table F below. These include purchases of proven acreage and the cost of drilling productive wells. Further detail on these expenditures will be found in the pictorial review beginning on page 6.

As noted earlier, exploration expenditures were $37,040,000. This amount together with capital expenditures totalled $139,801,000 in 1966, an increase of $24,210,000 or 21 per cent over the previous year. Chart 9 provides a 10-year history of these expenditures.

There has been a steady growth in the fixed asset investment per employee over the years, indicating the capital intensive nature of the business. This is illustrated in Table G below which compares the years 1966 and 1957.



F **Capital expenditures** (thousands of dollars)		1966	1965
Producing	$	24,650	40,777
Manufacturing	$	24,650	8,608
Chemical products	$	20,055	8,032
Marketing	$	22,963	21,583
Transportation	$	5,820	3,250
Other	$	4,623	3,335
	$	102,761	85,585

G **Fixed assets per employee**		1966	1957
Gross investment in fixed assets at year end	$	1,231,537,000	762,312,000
Number of employees at year end		14,289	14,657
Gross investment per employee	$	86,188	52,010

Employees' annuities

Pensions provided for employees under the company's retirement plan are administered by a board of trustees. At December 31, 1966 the trustees held investments of $108,236,000 at cost. A recent actuarial valuation indicates that the company has made adequate provision for its pension obligations.

At year end 2,486 retired employees were drawing pensions under the company plans.

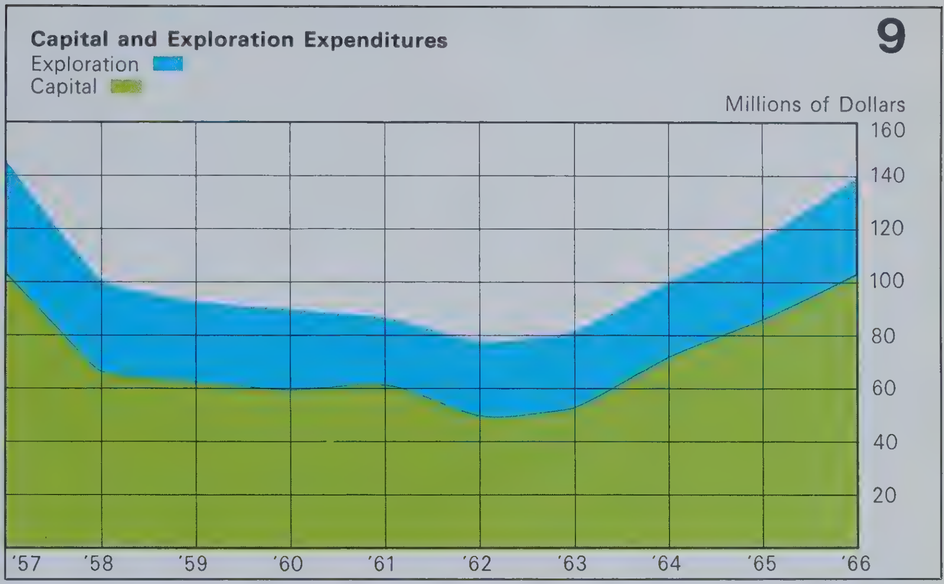
The company also has a wide range of other employee benefits including a plan which provides compensation for widows and other employees' survivors.

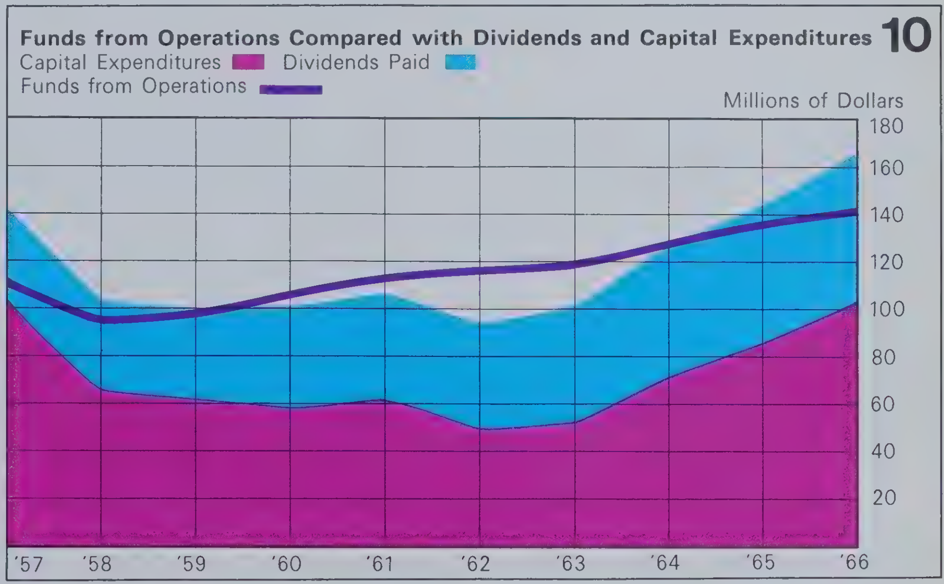
Shareholders' investment

Shareholders' investment increased $31,862,000 in the year and totalled $830,147,000 at December 31, 1966. This amounts to $26.11 per share on the 31,791,658 shares outstanding. There were 41,088 shareholders at year end 1966 of which 35,889 were residents of Canada. Details of changes in shareholders' investment appear in note 6 on page 26.

Source and use of funds

A statement of source and use of funds appears with the financial statements on page 24. Chart 10 provides a 10-year history of funds from operations compared with dividends and capital expenditures.





Imperial Oil Limited and Subsidiary Companies

Consolidated statement of earnings for the years 1966 and 1965

		1966	1965
Revenues	thousands of dollars		
Sales and other operating revenues	$	1,183,595	1,145,083
Investment and other income	$	17,702	16,784
	$	1,201,297	1,161,867
Expenses			
Crude oil, products and merchandise purchases	$	645,427	625,806
Operating, exploration and administrative expenses	$	309,396	302,388
Depreciation and amortization (note 8, page 27)	$	49,245	50,340
Income taxes (note 2, page 26)	$	44,414	40,861
Taxes, other than income taxes	$	58,421	54,207
Interest and discount on long-term debt	$	1,986	2,087
	$	1,108,889	1,075,689
Earnings for the year	$	92,408	86,178
per share	*$*	*2.90*	*2.71*

Consolidated statement of source and use of funds for the years 1966 and 1965

		1966	1965
Source of funds	thousands of dollars		
Earnings for the year	$	92,408	86,178
Depreciation and amortization	$	49,245	50,340
Funds from operations	$	141,653	136,518
Capital stock issued	$	2,954	2,200
Sales of property, plant and equipment	$	5,353	5,155
Deferred income taxes	$	7,074	8,775
	$	157,034	152,648
Use of funds			
Capital expenditures for property, plant and equipment	$	102,761	85,585
Dividends paid to shareholders	$	63,500	58,667
Increase in long-term receivables	$	4,430	2,603
Increase (decrease) in investments and deposits	$	5,510	(7,392)
Reduction in long-term debt	$	1,900	5,700
Other	$	114	337
	$	178,215	145,500
Increase (decrease) in working capital	$	(21,181)	7,148

The Notes to the Financial Statements
are a part of these statements.

Consolidated statement of financial position as at December 31, 1966 and 1965

		1966	1965
Current assets	thousands of dollars		
Cash, including time deposits	$	29,286	34,743
Short-term commercial notes	$	1,184	8,392
Government securities, at the lower of cost and market	$	1,690	15,004
Accounts receivable (note 3, page 26)	$	202,863	189,349
Prepaid taxes, insurance and rentals	$	3,004	2,257
Inventories, on basis of cost which was less than market:			
crude oil, products and merchandise	$	145,835	142,509
materials and supplies	$	9,548	9,328
	$	393,410	401,582
Current liabilities			
Accounts payable and accrued liabilities (note 3, page 26)	$	120,149	112,208
Income and other taxes payable	$	23,197	18,129
	$	143,346	130,337
Working capital	$	250,064	271,245
Property, plant and equipment, at cost less accumulated depreciation and amortization (note 8, page 27)	$	640,946	592,783
Long-term accounts receivable, investments and other assets (note 5, page 26)	$	83,060	73,148
Capital employed	$	974,070	937,176
Long-term debt (note 9, page 27)	$	56,500	58,400
Employee annuity and contingent obligations	$	12,735	12,877
Deferred income taxes (note 2, page 26)	$	74,688	67,614
Shareholders' investment (note 6, page 26)	$	830,147	798,285

Approved on behalf of the board

The Notes to the Financial Statements are a part of this statement.

Auditors' Report to the Shareholders of Imperial Oil Limited

We have examined the Consolidated Statement of Financial Position of Imperial Oil Limited and its subsidiary companies as at December 31, 1966 and the Consolidated Statement of Earnings and the Consolidated Statement of Source and Use of Funds for the year then ended. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1966 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants
Toronto, March 2, 1967

Notes to the Financial Statements

1. General
The consolidated financial statements include the results of operations for 1966 and the financial position as at December 31, 1966 of Imperial Oil Limited and all its subsidiaries. The Companies are engaged in many phases of the oil industry and related activities and organization of the operations is facilitated by the use of subsidiary companies.

2. Income taxes
It is the policy of the Companies to claim maximum allowances for income tax purposes. Deferred income tax accounting is followed with respect to capital cost allowances and allowances for capitalized producing lease costs.

The Companies carry on operations in all phases of the complex petroleum and petrochemical industry and the related income tax interpretations, legislation and regulations are continually changing. As a result, there are usually some tax matters in question, sometimes for large amounts. The Companies have made what they believe are adequate provisions for income taxes payable.

3. Amounts owing to and from affiliated companies
At December 31, 1966 balances owing to and from affiliated companies, all of which arose in the normal course of business operations, amounted to $12,854,000 and $1,148,000 respectively.

4. Remuneration of directors
The total remuneration paid in 1966 to directors of the company in the capacity of a director, officer or employee and included in the Consolidated Statement of Earnings was $821,000.

5. Long-term accounts receivable, investments and other assets at December 31

		1966	1965
	thousands of dollars		
Long-term accounts receivable	$	46,998	42,568
Investment in other companies, at cost:			
With quoted market value			
1966–$152,240,000 1965–$157,190,000	$	16,012	16,012
Without quoted market value	$	8,008	6,927
Funds on deposit with governments and others	$	5,111	4,807
Government of Canada Special Refundable Tax	$	4,125	—
Deferred charges	$	2,806	2,834
	$	83,060	73,148

6. Shareholders' investment
Under the Company's Incentive Stock Option Plans of 1959 and 1965, employees may be granted options to purchase unissued no par value common shares of the Company at not less than 95 per cent of the market price on the date of granting the options. As of December 31, 1966 there were outstanding options for 399,090 shares exercisable at prices of $40.00, $43.11, $51.42 and $51.06. Options for 239,640 shares may be exercised currently, for 77,225 shares after September 8, 1967 and for 82,225 shares after July 4, 1968.

Included in the above are 100,875 shares under option to directors or officers.

In 1966 the Company issued 70,525 shares for $2,954,000 under the terms of the Plans.

Capital surplus arose from the sale in 1948 of the Company's investment in International Petroleum Company, Limited. Since separate disclosure of this item is no longer considered informative or significant in relation to total shareholders' investment, it has been transferred to earnings retained and used in the business.

Shareholders' investment at December 31		1966	1965
Capital stock	thousands of dollars		
Authorized–40,000,000 no par value shares Issued 1966–31,791,658 shares; 1965–31,721,133 shares	$	243,655	240,701
Capital surplus	$	—	67,223
Earnings retained and used in the business			
At beginning of year	$	490,361	462,850
Earnings for the year	$	92,408	86,178
Transfer of capital surplus	$	67,223	—
Dividends paid	$	(63,500)	(58,667)
At end of year	$	586,492	490,361
Total shareholders' investment	$	830,147	798,285

7. Contingencies and commitments

The Company is a party to agreements under which it has undertaken to protect certain principal and interest obligations of various crude oil pipe line companies. The long-term indebtedness of those companies at December 31, 1966, for which the Company is contingently obligated, amounts to $72,719,000. The pipe line companies are meeting these obligations as they fall due and present indications are that they will continue to do so.

The Company has guaranteed or agreed to guarantee obligations of others, chiefly principal of and interest on borrowings, in the aggregate principal amount of $14,741,000.

Under provisions of exploration permits, the Companies have undertaken work obligations in the Northwest Territories aggregating $7,100,000 and have deposited with the Federal Government promissory notes in a like amount. These notes are returnable for cancellation upon performance of the work obligations. At December 31, 1966 approximately $4,110,000 had been expended in respect of these obligations.

Tanker charter hire and other rentals payable by the Companies under long-term agreements approximate $2,800,000 annually.

While the Companies are involved in litigation incident to the nature of their business, it is impossible to ascertain what, if any, payments will have to be made in respect of such litigation. However, any amounts which the Companies may be called upon to pay and any assets, the title to which may be in question, as a result of current litigation, will not be materially important in relation to the total assets of the Companies.

8. Property, plant and equipment at December 31		1966	1965
		thousands of dollars	
Gross investment—at cost			
Producing	$	406,704	387,184
Manufacturing	$	349,034	325,487
Chemical products	$	75,474	55,930
Marketing	$	303,864	289,136
Transportation	$	52,201	46,733
Other	$	44,260	40,301
	$	1,231,537	1,144,771
Accumulated depreciation and amortization			
Producing	$	166,070	156,711
Manufacturing	$	234,396	220,487
Chemical products	$	28,201	24,328
Marketing	$	128,843	120,107
Transportation	$	22,328	20,933
Other	$	10,753	9,422
	$	590,591	551,988
Net investment	$	640,946	592,783

Depreciation of plant and equipment is based on the estimated service lives of the assets, calculated on the straight line method. Amortization of producing well costs and of capitalized producing lease costs is determined on the unit of production method.

The charges against earnings in 1966 for amortization of producing well costs and capitalized producing lease costs amounted to $5,942,000 and the accumulated provision as at December 31, 1966 amounted to $106,402,000.

9. Long-term debt at December 31		1966	1965
		thousands of dollars	
Imperial Oil Limited 3% Sinking Fund Debentures, 1949 Issue, maturing December 15, 1969 *Sinking Fund Requirements: $2,500,000 in the year 1968*	$	22,500	22,500
3⅜% Sinking Fund Debentures, 1955 Issue, maturing February 1, 1975 *Sinking Fund Requirements: $2,000,000 in each of the years 1969 and 1970 $2,500,000 in each of the years 1971 to 1974 inclusive*	$	34,000	35,900
	$	56,500	58,400

In January 1967 Imperial Oil Limited received the proceeds of an issue of $50,000,000 6¾% Sinking Fund Debentures sold at par. This issue was dated January 2, 1967 and matures January 2, 1987. Sinking fund requirements are $2,500,000 in each of the years 1971 to 1986 inclusive.

Imperial Oil Limited and Subsidiary Companies

Ten Year Summary			1966	1965
		dollars in thousands except per share amounts		
Financial				
Revenues from operations and investments		$	1,201,297	1,161,867
Less: Expenses excluding depreciation and amortization		$	1,015,230	984,488
Income taxes		$	44,414	40,861
Funds from operations		$	141,653	136,518
per share		*$*	*4.45*	*4.30*
Less: Depreciation and amortization		$	49,245	50,340
Earnings for the year		$	92,408	86,178
per share		*$*	*2.90*	*2.71*
as a percentage of revenues		%	*7.7*	*7.4*
Dividends paid		$	63,500	58,667
per share		*$*	*2.00*	*1.85*
as a percentage of earnings		%	*69*	*68*
Current assets		$	393,410	401,582
Less: Current liabilities		$	143,346	130,337
Working capital		$	250,064	271,245
ratio of current assets to current liabilities			*2.7*	*3.1*
Property, plant and equipment less accumulated depreciation and amortization		$	640,946	592,783
Long-term accounts receivable, investments and other assets		$	83,060	73,148
Capital employed		$	974,070	937,176
earnings as a percentage of capital employed at January 1		%	*9.8*	*9.5*
Less: Long-term debt		$	56,500	58,400
Other liabilities and deferred income taxes		$	87,423	80,491
Balance—being shareholders' investment at book value		$	830,147	798,285
per share		*$*	*26.11*	*25.16*
earnings as a percentage of shareholders' investment at January 1		%	*11.5*	*11.2*
Number of shares issued at year end (thousands)			31,792	31,721
Number of shareholders			41,088	41,208
Capital expenditures		$	102,761	85,585
Exploration expenditures		$	37,040	30,006
Operating				
Petroleum products sales	thousands of barrels per day		356	348
Crude oil processed at refineries	thousands of barrels per day		346	332
Crude oil production—gross	thousands of barrels per day		146	133
net after royalties			*127*	*115*
Natural gas production—gross	millions of cubic feet per day		258	215
net after royalties			*218*	*181*
Number of employees at year end			14,289	13,693

1964	1963	1962	1961	1960	1959	1958	1957
							dollars in thousands except per share amounts
1,081,034	1,015,234	977,947	907,806	873,615	866,798	838,775	884,569
916,126	857,052	818,060	747,653	721,010	727,323	711,942	720,579
36,979	40,030	43,220	46,653	46,081	41,237	31,293	52,366
127,929	118,152	116,667	113,500	106,524	98,238	95,540	111,624
4.04	*3.74*	*3.69*	*3.59*	*3.39*	*3.12*	*3.04*	*3.55*
48,857	47,064	48,234	45,668	45,322	43,713	44,920	39,543
79,072	71,088	68,433	67,832	61,202	54,525	50,620	72,081
2.50	*2.25*	*2.16*	*2.14*	*1.94*	*1.73*	*1.61*	*2.29*
7.3	*7.0*	*7.0*	*7.5*	*7.0*	*6.3*	*6.0*	*8.1*
55,382	48,994	44,248	44,151	42,474	37,752	37,736	37,728
1.75	*1.55*	*1.40*	*1.40*	*1.35*	*1.20*	*1.20*	*1.20*
70	*69*	*65*	*65*	*69*	*69*	*75*	*52*
380,372	388,862	350,786	335,848	318,007	319,802	318,416	322,675
116,275	125,093	102,346	106,562	98,328	97,557	89,217	90,790
264,097	263,769	248,440	229,286	219,679	222,245	229,199	231,885
3.3	*3.1*	*3.4*	*3.2*	*3.2*	*3.3*	*3.6*	*3.6*
562,693	545,090	544,277	547,553	535,499	523,407	504,556	488,991
77,628	68,322	58,616	55,550	49,291	40,863	38,660	37,240
904,418	877,181	851,333	832,389	804,469	786,515	772,415	758,116
9.0	*8.4*	*8.2*	*8.4*	*7.8*	*7.1*	*6.7*	*10.0*
64,100	69,400	73,000	76,500	80,000	83,000	88,000	90,776
71,744	65,203	65,909	76,758	75,750	73,593	71,635	67,738
768,574	742,578	712,424	679,131	648,719	629,922	612,780	599,602
24.27	*23.49*	*22.54*	*21.49*	*20.62*	*20.02*	*19.48*	*19.07*
10.6	*10.0*	*10.1*	*10.5*	*9.7*	*8.9*	*8.4*	*12.8*
31,669	31,611	31,607	31,602	31,464	31,462	31,451	31,443
40,924	42,057	43,195	43,562	45,949	45,332	44,668	44,544
71,608	52,515	49,077	62,103	58,747	62,194	65,614	103,063
28,271	27,731	27,312	24,638	30,768	29,693	32,770	41,261
324	311	303	283	288	287	269	274
314	319	305	291	285	289	269	267
131	126	124	111	90	96	87	112
114	*109*	*108*	*97*	*79*	*84*	*77*	*97*
188	185	170	131	120	108	100	97
160	*159*	*150*	*117*	*108*	*98*	*91*	*88*
13,623	11,998	12,257	12,578	13,007	13,080	13,599	14,657

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